

Message Text

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ACTION EB-07

INFO OCT-01 AF-06 EUR-12 NEA-10 ISO-00 ERDA-05 AID-05

CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FEAE-00 FPC-01

H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00

PA-01 PRS-01 IO-10 ARA-06 EA-07 /132 W

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FM AMEMBASSY ALGIERS

TO SECSTATE WASHDC 3242

INFO AMEMBASSY LAGOS

AMEMBASSY TRIPOLI

AMEMBASSY MOSCOW

C O N F I D E N T I A L ALGIERS 3187

E.O. 11652: GDS

TAGS: ENRG, AG, UR

SUBJ: AMOCO NEGOTIATIONS WITH ALGERIANS

REF: LAGOS 10536

1. SUMMARY: AMOCO OIL CURRENTLY NEGOTIATING FIVE-YEAR OIL PURCHASE CONTRACT WITH SONATRACH BUT WILL NOT ACCEPT TERMS OF NEW AUTOMATIC PRICING SCHEME. SONATRACH HAS INDICATED THAT AMOCO WILL GET 20 CENT DISCOUNT PLUS POSSIBLE ADDITIONAL QUANTITY DISCOUNT. WITH 20 CENT DISCOUNT, AMOCO BELIEVES THAT ALGERIAN PRICE IN LINE WITH NEW LIBYAN AND NIGERIAN PRICES. END SUMMARY.

2. AMOCO OIL COMPANY BEGAN NEGOTIATIONS OCT. 24 WITH SONATRACH FOR FIVE-YEAR OIL CONTRACT COVERING DELIVERIES BEGINNING JAN. 1, 1976. NEW CONTRACT WOULD BE AMOCO'S FIRST UNDER TERMS OF SONATRACH'S RECENTLY ANNOUNCED AUTOMATIC OIL PRICING SCHEME AND WOULD REPLACE CURRENT
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CONTRACT UNDER WHICH PRICE RENEGOTIATED QUARTERLY.

3. AMOCO VICE PRESIDENTS NEVILLE AND ANDREWS TOLD EMBOFF OCT. 24 THAT AMOCO WAS UNHAPPY WITH TERMS OF PROPOSED AUTOMATIC PRICING SCHEME AND WOULD NOT SIGN CONTRACT BASED ON THIS CONCEPT. AMOCO OFFICIALS EXPLAINED THAT THIS WAS NOT BECAUSE OF PROBABLE MINOR FLUCTUATIONS IN QUALITY AND FREIGHT DIFFERENTIALS BUT POSSIBILITY OF MAJOR CHANGES IN PRICE OF MARKER CRUDE DURING COURSE OF FIVE-YEAR CONTRACT. IN NEGOTIATIONS, AMOCO WILL PROPOSE THAT ALGERIANS MODIFY AUTOMATIC PRICING FORMULA SOMEWHAT. AMOCO WILL SUGGEST THAT AUTOMATIC MONTHLY INDEX NOT BE USED TO DETERMINE PRICE ITSELF, BUT AS AUTOMATIC TRIGGER FOR PRICE RENEGOTIATIONS, I.E. IF DIFFERENCE BETWEEN AUTOMATIC INDEX PRICE AND CONTRACT PRICE REACHED CERTAIN LEVEL, PRICE RENEGOTIATIONS WOULD AUTOMATICALLY BEGIN (BUT AMOCO WOULD NOT BE LEGALLY OBLIGED TO ACCEPT NEW PRICE). THEY WERE UNSURE WHETHER SONATRACH WILLING TO ACCEPT THIS FORMULA BUT NOTED THAT OTHER US OIL COMPANIES APPEAR TO BE WATCHING AMOCO LEAD, GIVING COMPANY EXTRA LEVERAGE.

4. ASKED WHETHER ALGERIAN OIL PRICE WAS NOW COMPETITIVE WITH LIBYAN, NIGERIAN, AND IRAQI CRUDES, NEVILLE NOTED THAT AMOCO HAD BEEN PROMISED 20 CENT DISCOUNT ON OFFICIAL PRICE AS PARTIAL COMPENSATION FOR EXPLORATION IT ABOUT TO UNDERTAKE IN ALGERIA. (THIS DISCOUNT IS TO GO INTO EFFECT IN FOURTH QUARTER FO 1975.) IF ALGERIAN PRICE WERE \$12.55 TO AMOCO (I.E. \$12.75 MINUS 20 CENT DISCOUNT) PER BARREL THEY WOULD CONSIDER ALGERIAN PRICE "RIGHT ON THE BUTTON" IN RELATION TO LIBYA, NIGERIAN, AND IRAQI CRUDES. NEVILLE ADDED THAT SONATRACH HAD ALSO HINTED THAT THOSE COMPANIES WHICH PURCHASED OVER 50,000 B/D WOULD GET QUANTITY DISCOUNT.

5. IF PROBLEM OF AUTOMATIC PRICING FORMULA COULD BE WORKED OUT, AMOCO AT THIS POINT PLANS TO TAKE 40,000 B/D. HOWEVER, IF EXTRA QUANTITY DISCOUNT MATERIALIZES, PRICE WOULD BE ATTRACTIVE ENOUGH TSO THAT COMPANY WOULD TAKE AS MUCH AS 80,000 B/D AND TRADE QUANTITIES

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ABOVE ITS OWN NEEDS. AMOCO OFFICIALS EXPECTED THAT SUN OIL MIGHT CONTRACT FOR ABOUT 40,000 B/D OF ALG ERAN OIL BEGINNING JANUARY 1. OTHER US PURCHASERS, FOR THE MOST PART WOULD BE SMALLER IMPORTERS SUCH AS CLARK OIL, TESORO OIL, AND MONSANTO CHEMICAL.

6. DESPITE THE FACT THAT PRICE OF LIBYAN OIL AND NIGERIAN OIL HAVE BOTH BEEN BOOSTED BY LARGER AMOUNTS

THAN ALGERIAN CRUDE (12 AND 26 CENTS RESPECTIVELY)
MAKING ALGERIAN OIL ROUGHLY COMPETITIVE AGAIN, AMOCO
OFFICIALS DID NOT FEEL THAT MAJOR OIL COMPANIES WOULD
COME BACK TO ALGERIA. MAJORS HAD NOT FORGOTTEN
EXTREME ALGERIAN PRICE INFLEXIBILITY IN PAST AND DID
NOT SEEM ANXIOUS TO RUSH BACK INTO ALGERIA AT FIRST
SIGN OF MORE COMPETITIVE PRICE.

7. AMOCO OFFICIALS FINALLY NOTED THAT THEY HAD
PARTICIPATED IN ALGERIAN BARTER DEAL IN 1975. AMOCO HAD
PURCHASED 150,000 TONS OF OIL FROM FRENCH AGENCY COPECHINE
(PHON.) AT \$11.30 PER BARREL. ARCO AND SUN OIL HAD ALSO PURCHASED
OIL UNDER THIS BARTER DEAL. AMOCO UNDERSTOOD THAT OIL
ORIGINALLY OBTAINED BY SOVIETS IN EXCHANGE FOR EQUIPMENT
EXPORTS TO ALGERIA. WHEN AMOCO HAD COMPLAINED TO
SONATRACH ABOUT HIGH PRICE THEY HAD TO PAY IN THIRD
QUARTER IN RELATION TO THIS DISCOUNTED BARTER PRICE,
SONATRACH HAD REPLIED THAT IT DID NOT ENGAGE IN BARTER
DEALS.
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